

New Republican Social Security Plan Would Continue To “Raid” the Social Security Trust Fund

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Last week, House and Senate Republicans unveiled their latest Social Security plan. The new proposal would use the annual surpluses in the Social Security Trust Fund to pay for private accounts. Republicans argue that taking those surpluses away from the government and putting them into private accounts would end the practice of using the Social Security surpluses to fund other programs, often described as “raiding” the trust fund.

New Plan Does not stop “raid.” Republicans have crafted their rhetoric to tap into public outrage about that practice. Unfortunately, their rhetoric doesn’t match the reality of their proposal:

- they would require that the private accounts initially invest entirely in Treasury bonds;
- this requirement keeps the cash in the Treasury, where it will still be used to finance other programs.

GOP leader acknowledges continued use of Social Security funds. When asked at a press conference how the government would be able to fund the programs now financed by the Social Security surplus, Jim McCrery, Chairman of the Social Security Subcommittee, responded, “Well, the surplus - the cash can still be used the way it is now.”

Is There Any Real Change?

Financing Under Current Law

1. Treasury receives Social Security payroll taxes.
2. Treasury pays Social Security benefits.
3. Treasury gives the Social Security Trust Fund bonds in the amount of the “surplus” taxes.
4. **Treasury uses the surplus cash for its day to day operations.**

Financing Under DeMint/McCrery Bill

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* The House bill may “double count” the Social Security surplus and issue two sets of bonds, one to the trust fund, and one to private accounts. This would not change how Treasury would use the cash.

Raiding the Trust Fund: the Democratic and Republican Records

Both parties have a history of opposing use of the Social Security Trust Fund surpluses to fund other programs. But while their rhetoric is similar, Democrats have a much stronger record than Republicans when it comes to action on this issue.

GOP Record of Raiding Trust Fund

- In the late 1990s, when the budget shifted into surplus, Republicans sought to use the surplus for tax cuts, without protecting the Social Security surplus.
- At that time, Republicans also sought to pass a balanced budget constitutional amendment that did not protect Social Security funds from being used to fund other programs.
- When Republicans took control of government in 2001, despite past GOP efforts to use it for tax cuts, the entire Social Security surplus was being saved. Republicans promised to continue this policy and protect the Social Security surplus.
- Instead they used part of the surplus in 2001, as well as every penny of it in 2002 and every year since – a total of \$670 billion used for other purposes.
- The budget resolution they approved a few months ago would spend \$185 billion of Social Security surpluses on other programs next year.
- The budget resolution, like the President’s budget, would use every penny of the Social Security surplus for other programs over the next decade, a total of \$2.6 trillion.
- Now, they say they have a plan to stop themselves and keep the money from being spent on other programs. But a look at the fine print confirms that there is no change, only a promise to change at some point in the future. We already heard that promise in 2001. They didn’t keep it then.

Democrats Fight to Protect Trust Fund

- Democrats led the fight for deficit reduction in 1993, and put us on a path that ultimately led to a balanced budget that allowed us to protect the Social Security surpluses.
- Democrats succeeded in blocking the balanced budget amendment, in large part because of concern that it did not protect the Social Security surplus.
- When the surplus materialized, Democrats blocked GOP efforts to spend part of the Social Security surplus on tax cuts.
- For several years under President Clinton, we saved every penny of the Social Security surplus. A total of \$474 billion in Social Security surpluses were saved.
- Democrats fought for a “lockbox” to guarantee they would continue to be saved.
- Democrats have continued to fight for responsible budgets and to restore the PAYGO rules that would prevent Congress from widening the deficit and making it harder for us to resume saving Social Security surpluses for Social Security.

History of Use of Social Security Trust Fund Surpluses

There were Social Security Trust Fund surpluses in most years before the 1983 amendments. However, it was not until the 1983 amendments that the system was designed to build up a large surplus that would then be drawn down in later years. The Federal budget was in deficit at that time so the surplus was used to fund other programs from the beginning.

When the funds are used for other programs, or “raided,” the Trust Fund receives Treasury bonds in exchange for lending its surplus to the Treasury’s general fund. These bonds assure that the money will be repaid, with interest, when it is needed to finance future benefits. If the surplus is not used for other programs, it is used to reduce debt held by the public. The Trust Fund receives Treasury bonds in that case as well, but the reduced public debt would put the government in a better fiscal position to repay the Trust Fund when the bonds mature and cash is needed to pay future benefits.

Fiscal Years 1983 to 1997. The entire Social Security surplus was used to fund other Federal programs in each of these years, because the overall budget was in deficit. The amount was minuscule at first, about \$200 million in 1983 and \$300 million in 1984, but it jumped to \$9.4 billion in 1985 and steadily rose to \$81.3 billion in 1997.

Fiscal Year 1998. The overall budget was in surplus in 1998. Because the \$69 billion overall surplus was smaller than the \$99 billion Social Security surplus, about \$30 billion of the Social Security surplus was used to fund other programs.

Fiscal Years 1999 and 2000. The overall budget surplus was larger than the Social Security surplus in each of these years. Consequently, none of the Social Security surplus was used to finance other programs.

Fiscal Year 2001. The overall budget was in surplus in 2001. However, the \$128 billion overall surplus was smaller than the \$163 billion Social Security surplus. Consequently, about \$35 billion of the Social Security surplus was used to fund other programs.

Fiscal Years 2002 to present. The overall budget returned to deficit in 2002. As a result, the entire Social Security surplus was used to fund other programs in each year.